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C O N F I D E N T I A L SECTION 01 OF 02 BEIJING 020360

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TAGS: [PREL](#) [PGOV](#) [CH](#) [TW](#)

SUBJECT: SHANGHAI PARTY LEADER CHEN LIANGYU FIRED IN  
CORRUPTION-RELATED PROBE; HU'S SHOT ACROSS THE BOW

REF: A. SHANGHAI 6166

[B](#). SHANGHAI 5928

[C](#). 05 BEIJING 7392

Classified By: Classified by Political Internal Unit Chief Susan  
Thornton. Reasons 1.4 (b/d).

#### Summary

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[1](#). (C) Xinhua News Agency announced the morning of September 25 that Politburo member Chen Liangyu was removed from his post as Shanghai Party Secretary by the Politburo due to corruption allegations. A terse Xinhua statement noted that Shanghai Mayor Han Zheng was named Acting Party Secretary in Chen's stead. One Beijing contact said that it is not yet clear whether Han Zheng's appointment is temporary. Speculation about Chen's removal from Shanghai has circulated actively in the last two years and many believe that President Hu Jintao has been angling to replace Chen with a younger protege who would work more in concert with the central leadership. It appears that Chen, whose former personal secretary was arrested several weeks ago, fell victim in the end to a major pension funds scandal in Shanghai. Chen is the highest level official to fall on corruption charges since the takedown of Beijing Party Secretary Chen Xitong in [1995](#). End summary.

[2](#). (C) Shanghai Party Secretary and Politburo member Chen Liangyu, often cited as an opponent of President Hu Jintao and Premier Wen Jiabao, has fallen victim to corruption allegations and has been removed as Shanghai Party Secretary and suspended from positions on the Politburo and Central Committee, Xinhua announced September 25. According to the announcement, Chen has been implicated in the ongoing pension funds scandal in Shanghai (Ref B) that has already netted a number of Shanghai officials, including Chen's former personal secretary, Qin Yu. Qin was arrested several weeks ago and, according to Beijing-based journalist Chen Jieren (protect), has been held for interrogation by discipline teams in Hunan province.

[3](#). (C) As reported Ref C, speculation has been rife among Chinese political elites that Chen would be removed from Shanghai at some point. Some of the earlier rumors about efforts to remove Chen involved plans to move a protege of Hu Jintao's, such as United Front Work Department Director Liu Yandong or Jiangsu Party Secretary Li Yuanchao into the Shanghai job, in preparation for elevation to the Politburo at the 17th Party Congress. With current Shanghai Mayor Han Zheng's appointment as Acting Shanghai Party Secretary, it is not clear, according to journalist

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Chen, that a final decision has been made on who will replace Chen Liangyu in Shanghai. While it appears that the Central Committee will have to approve Chen's removal from the Politburo, which will likely happen at the upcoming Party Plenum in October, it is not clear that the Plenum will move to fill the vacancy left by Chen on the Politburo. (Note: The Shanghai Party Secretary is traditionally a member of the Politburo. End note.) Journalist Chen stated that former Shanghai Party Secretary and Politburo Standing Committee member Huang Ju has also been implicated in the pension scandal, but will avoid scrutiny because of his ongoing fight with cancer.

¶4. (C) Central Discipline Inspection Commission (CDIC) Deputy Director General for Foreign Affairs Shao Shuwang told poloffs on September 21 that the discipline team investigating the Shanghai pension scandal was headed by a CDIC Vice Minister and included more than 100 people from agencies including the Procurate, Public security and other investigative arms. Shao refrained from speculating how high the probe would go, but said that many high level officials would be implicated. "Whoever is investigated will be out of luck," she quipped. Shao said that the Shanghai case was notable because the misappropriation of huge sums of public funds made it especially high profile and impossible for the Government to ignore. She also said the Government would bail out any losses to the public.

¶5. (C) The context surrounding Chen's removal is similar to circumstances surrounding the only other removal of a Politburo member on corruption charges,

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the arrest of Beijing Party Secretary Chen Xitong in ¶1995. Chen Xitong (no relation to Chen Liangyu) was a powerful opponent of then-President Jiang Zemin, who had high-level backing from former leaders and was removed from the Politburo and sentenced to sixteen years in prison on charges that many here view as politicized. (Note: Several sources in Beijing have recently confirmed reports that Chen Xitong has been paroled from prison for medical reasons and is living quietly at his home in Beijing under guard. End note.) Chen Liangyu's stature does not rival that of Chen Xitong at the time, but both cases will be seen as milestones that affirm the Party chief's ability to bring down a powerful regional leader.

Comment

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¶6. (C) Well-sourced speculation about efforts to remove Chen Liangyu has circulated for the past two years. Until now, the failure to remove Chen had been seen as evidence of Hu Jintao's incomplete authority. Beijing contacts are not yet counting Chen's removal as a declaration of complete victory for Hu Jintao and say that the appointment to replace Chen will say more about Hu's power than Chen's removal. However, Chen's removal at long last will cause those who underestimate Hu Jintao to think twice.

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